

Fairfax County Uniformed Retirement System

A Pension Trust
Fund of Fairfax
County Virginia

Comprehensive Annual Financial Report

For the Fiscal Year July 1, 1997 to June 30, 1998

Produced by the:
Fairfax County Retirement Administration Agency
10680 Main Street, Suite 280
Fairfax VA 22030

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INTRODUCTORY SECTION



**FAIRFAX
COUNTY**

**BOARD OF TRUSTEES
UNIFORMED RETIREMENT SYSTEM**

10680 Main Street, Suite 280
Fairfax, Virginia 22030-3812

Telephone: (703) 246-2396 (800) 333-1633 FAX: (703) 273-3185

V I R G I N I A

December 28, 1998

Dear Members of the Board of Trustees:

We are pleased to submit to you the annual report of the Fairfax County Uniformed Retirement System ("System") for the fiscal year ended June 30, 1998. We hope this annual report will aid in understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein.

The annual report for fiscal year 1998 consists of five sections: an Introductory Section which contains a transmittal letter along with the identification of the organization; a Financial Section which contains the opinion of the independent auditors, the financial statements of the System and required supplementary information; an Investment Section which contains investment results; the Actuarial Section which contains the independent actuary's certification letter, a summary of the results of the July 1, 1997 actuarial valuation, and actuarial procedures and assumptions; and the Statistical Section which contains information regarding the System membership.

History

The Fairfax County Uniformed Retirement System was established on July 1, 1974 as a public employee retirement system providing defined benefit pension plan coverage for uniformed or sworn employees of the Fire and Rescue Department, helicopter pilots, the Sheriff's Department, the Department of Animal Control and certain park police officers. There were 1,562 active members and 518 retirees participating in the System as of June 30, 1998.

Benefit Provisions

The benefit provisions of the System are established by County Ordinance. The System provides normal service retirement and early service retirement benefits for members who attain age or service requirements. Coverage for service-connected disability benefits is immediate upon membership in the System. Ordinary (non-service related) disability benefits are provided after the attainment of five years of service. Members are vested after five years of service and are eligible for the benefits at the early or normal service retirement date.

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Capital Markets, Economic Conditions and Outlook

Fiscal 1998 Review

Fiscal 1998 ending June 30 was another good year for capital markets and almost a replay of fiscal 1997. The S&P 500 Index advanced 30.2%, marking the tenth consecutive fiscal year of positive returns for the Index and the fourth consecutive year of 25+% growth. US equity returns were again easily the best performer among major asset classes. US equity returns almost tripled the 10.5% return of the Lehman Brothers Aggregate Bond Index, and were nearly five times higher than the 6.4% achieved by the MSCI EAFE Index, the leading equity index of international developed markets.

Gains in 1998 were once again concentrated in the largest of the S&P 500 Index stocks, capping the fourth consecutive year that large-capitalization stocks outperformed small-cap stocks. The small-cap sector, as measured by the Russell 2000 Index, gained a more modest 16.5% for the fiscal year. The best-performing segment of the market was the large-cap S&P/BARRA Growth Index, which advanced 34.9% for the year. Large-cap "growth" stocks outperformed "value" stocks during 1998, but value had the advantage among both mid- and small-cap stock sectors. Once again the leadership within the stock market was very narrowly defined during the fiscal year, as the top ten performing stocks in the S&P 500 Index (mostly multinational, blue-chip stocks) accounted for 43% of the Index's return.

Economic conditions generally favored capital markets in fiscal 1998. This positive environment was bolstered by solid economic growth, as the Gross Domestic Product grew at better than 3.6% for the year. Consumer confidence reached a 30-year high, which fueled rising consumer spending. Strong corporate profits in 1998 led to new job creation and shrinking unemployment, which bottomed-out at 4.3%, a 24-year low. Declining interest rates, a cooperative Federal Reserve, and a Consumer Price Index that averaged only 1.6% over the past 12 months all contributed to the favorable capital market returns. International developments, however, roiled capital markets worldwide as several Asian countries experienced sharp economic, currency and confidence dislocations, causing the MSCI Emerging Markets Free Index to plummet 39% for the year. Japan was impacted by a deepening recession, weakening yen, and inability of the Japanese government to reform the banking system or stimulate the economy. Concern over this Asian crisis raised volatility in worldwide equity markets, but boosted US fixed-income markets as investors sought safe, liquid markets within which to weather the storm. US Treasury bonds were that safe haven. The 30-year Treasury Bond Index yield dropped 120 basis points from 6.8% at June 30, 1997 to 5.6% at June 30, 1998.

System

Against this economic backdrop, the System's assets advanced 16.7% for the fiscal year, a favorable absolute return and one not much below the outstanding 17.8% gain achieved in the previous year. The market value of the System increased from \$472.9 million on June 30, 1997 to \$558.6 million on June 30, 1998. The System ended the fiscal year with 56% in domestic and international equities, 41% in fixed-income securities, and 3% in cash. Derivatives represented 14.3% of the portfolio, consisting primarily of triple A-rated collateralized mortgage obligations. These securities were not of the speculative or leveraged variety.

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Outlook

Since the Bull Market began eight years ago on October 11, 1990, the S&P 500 Index has risen 283.8% on a price-only basis, or 19.0% annualized. The concept of "regression to the mean" suggests that the return of the S&P 500 Index should gravitate to the historic annual average of 11.2%. Indeed, after starting off fiscal 1999 by hitting record highs in mid-July, equity markets corrected sharply through the end of August, 1998, losing nearly 20% of value within two months. This correction was triggered by Russia's debt default and currency devaluation, which produced large losses for several US-based hedge funds, brokers and bankers. The Federal Reserve stepped in with three quick moves, dropping short-term interest rates 75 basis points to 4.75%. This action had the effect of calming worldwide capital markets, restoring liquidity to credit markets and confidence among consumers and allowing capital markets to rebound to former pre-correction levels. Going forward through fiscal 1999, we expect to see moderating economic growth, a slowdown in corporate profits, a slight pick-up in inflationary pressures, and continued volatility in capital markets.

The System's investments continue to be well-positioned and diversified. Any short-term downturn in the bond and equity markets would not have a material effect on the funded status of the System.

Financial Highlights

Internal and Budgetary Controls

The System's management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 1998, adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the budget for the System is annually presented to and approved by the Board of Trustees and the County's Board of Supervisors.

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Additions

The sources of additions for the System include member and employer contributions as well as net investment income. Total contributions and net investment income for fiscal year 1998 totaled \$98.9 million, an increase of \$9.3 million versus fiscal year 1997.

Table 1. Contributions and Investment Income

	FY 1998 (millions)	FY 1997 (millions)	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Employer Contributions	\$16.6	\$ 16.1	\$ 0.5	3.1%
Member Contributions	5.1	5.0	0.1	2.0
Net investment Income	77.2	68.5	8.7	12.7
	\$98.9	\$ 89.6	\$ 9.3	10.4%

Contributions

Contributions from Fairfax County increased 3.1% over the prior year and produced 16.8% of total additions. The increase in employer contributions was attributable to a higher payroll base, offset slightly by a reduction in the contribution rate from 22.39% in FY 1997 to 22.18% in FY 1998. Member contributions increased 2.0% over the prior year due to the higher payroll base, contributing 5.2% of total additions.

Investments

The net investment income portion of total additions increased by \$8.7 million or 12.7% in fiscal year 1998. Dividend and interest income increased \$2.9 million or 18.4%. Realized and unrealized gains on investments increased \$6.1 million or 11.3% due to favorable equity returns. The market value of net assets increased to \$558.6 million from \$472.9 million.

Deductions

The deductions from the System include the payment of retiree and beneficiary payments, the refund of employee contributions to former members and administrative expenses. Deductions for fiscal year 1998 totaled \$13.2, an increase of \$1.8 million or 15.6% over the prior fiscal year.

Table 2. Deductions by Type

	FY 1998 (millions)	FY 1997 (millions)	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Benefits	\$12.4	\$10.8	\$1.6	14.8%
Refunds	0.6	0.4	0.2	50.0
Administrative Expense	0.2	0.2	—	—
	\$13.2	\$11.4	\$1.8	15.6%

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The increase in benefit payments to \$12.4 million was mostly attributed to an increase in retirees. The number of retirees and beneficiaries increased to 518 at June 30, 1998 from 467 a year earlier. Retirees also received a 2.2% cost-of-living increase effective July 1, 1997.

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 1997 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits increased from 94.3% to 96.8%.

The Actuarial Section contains further information on the results of the July 1, 1997 valuation.

Investment Policies and Strategies

The Board of Trustees has an adopted Statement of Investment Objectives and Policy. This Statement establishes the investment goals, guidelines, constraints and performance standards the Trustees will use when exercising its fiduciary duties to manage the investment assets of the System. The Board operates in conformity with the standard of care required in making investments as stated in the Code of Virginia §51.1-124.30.C.

The Board receives quarterly reporting from staff and the System's investment consultant, BARRA/Rogers Casey Consulting, Inc., to ensure compliance with its stated objectives and policy. BARRA/Rogers Casey also monitors the performance of the System and its investment managers. Rate of return information is included in the Investment Section.

Securities of the System except for a pooled fund and short-term investment fund are held by State Street Bank and Trust Company, as agent, in the System's name. State Street Boston Corporation, the parent company, carries Financial Institution Bond insurance coverage including a Computer Crime Policy. An additional Excess Securities policy covers all risk of physical loss to securities.

INTRODUCTORY SECTION

Other Information

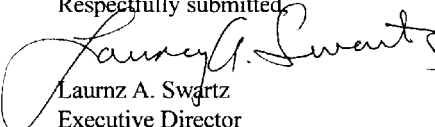
Independent Audit and Actuarial Certifications

An independent auditors' report and certifications from the actuary are included in this report.

Acknowledgements

The annual report of the Uniformed Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the staff who have worked hard throughout the year to ensure the successful operation of the System. This report is intended to provide complete and reliable information for determining the financial status of the System. It is being submitted to the Board of Supervisors and other interested parties.

Respectfully submitted,



Laurnz A. Swartz
Executive Director

INTRODUCTORY SECTION

BOARD OF TRUSTEES

Littell G. McClung
Chairman
Retired
Term Expires: July 2, 2002

Eric Lamar
Vice Chairman
Fairfax County Fire & Rescue Department
Term Expires: June 30, 2000

Susan S. Planchon
Treasurer
Ex officio Trustee

Vincent J. Bollon
International Association of Firefighters
Term Expires: August 31, 2000

Sgt. Charles E. Formeck
Office of the Sheriff
Member Trustee
Term Expires: October 30, 2001

Pamela S. Davis
Teacher, Fairfax County Public Schools
Term Expires: June 30, 2002

Adam K. Thiel
Fairfax County Fire & Rescue Department
Member Trustee
Term Expires: June 2, 2002

Peter J. Schroth
Fairfax County Personnel Director
Ex officio Trustee

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ADMINISTRATIVE ORGANIZATION

Administrative Staff

Laurnz A. Swartz
Executive Director

Jeffrey A. Willison
Investment Manager

Don A. McCorry
Retirement Administrator

Professional Services

Actuary

Milliman & Robertson
Actuaries
Vienna , VA

Auditor

KPMG Peat Marwick LLP
Certified Public Accountants
Washington, DC

Investment Managers

BEA Associates
New York, NY

Barclays Global Investors
San Francisco, CA

Lazard Asset Management
New York, NY

Cowen Asset Management
New York, NY

Payden & Rygel Investment Counsel
Los Angeles, CA

Marathon-London
London, England

Investment Consultant

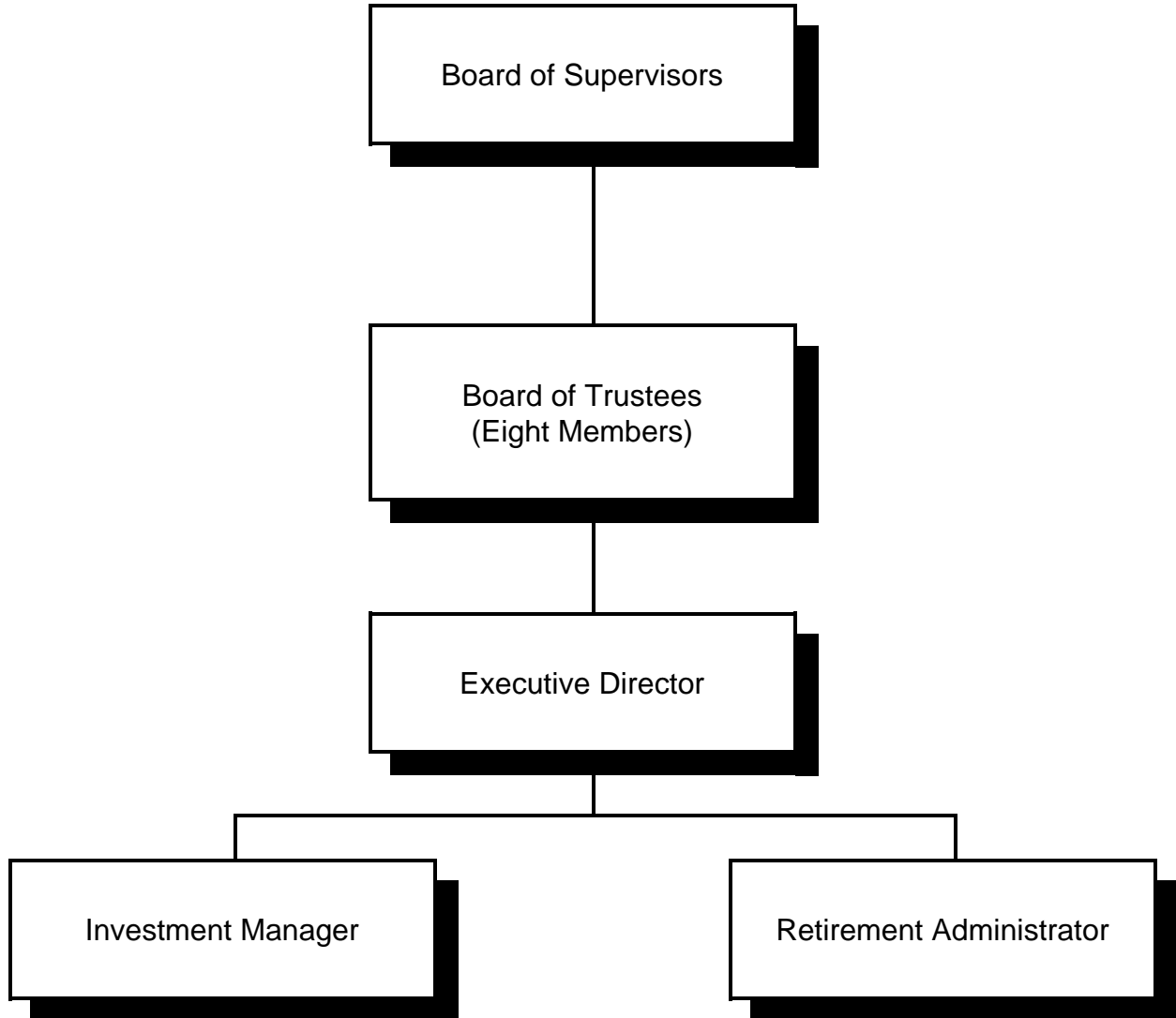
Barra RogersCasey
Darien, CT

Custodial Bank

State Street Bank and Trust Company
Boston, MA

INTRODUCTORY SECTION

ORGANIZATIONAL CHART



INTRODUCTORY SECTION

SUMMARY OF PLAN PROVISIONS

Membership in the Fairfax County Uniformed Retirement System includes most uniformed or sworn employees of the Fire and Rescue Department, the Sheriff's Department, the Department of Animal Control, helicopter pilots and former park police officers who elected to remain in the System rather than transfer to the Police Officers Retirement System. The System consists of four Plans, Plan A, Plan B, Plan C and Plan D which have different employee contribution rates and slightly different benefits for retirees younger than age 55. In all other respects, the plans are identical. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all members were enrolled in Plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward all members are enrolled in Plan D.

The general provisions of the Uniformed Retirement System are as follows:

All Plans

Normal Retirement: is either age 55 with at least 6 years of service or 25 years of service (including sick leave).

Early Retirement: 20 years of service (including sick leave). Reduction factors are applied to the basic formula for early retirement.

Deferred Vested Retirement: is available for vested members (vesting is at 5 years of creditable service) who leave their contributions in the System when they terminate. These members are entitled to their normal retirement benefit based on service with the County at age 55.

Service-Connected Disability Retirement: is available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 40% of their final compensation less workers' compensation and 64% of any Social Security award. Benefits for members retired on a severe service-connected disability will be calculated at 90% of salary at time of retirement less the average monthly workers' compensation benefit and 64% of any Social Security disability benefits.

Ordinary Disability Retirement: is available for vested members who become disabled due to an injury or illness that is not job-related. Normal retirement benefits are paid.

Death Benefits: Before Retirement — If the member is vested and the spouse is the beneficiary, the spouse may elect to receive 50% of the normal retirement benefit earned as of the date of the member's death. This benefit ceases if the spouse remarries before age 60. If this benefit is not elected, a refund of the member's contributions and interest is payable to the named beneficiary.

After Retirement — Refunds of any of the member's contributions and interest not already paid out in benefits will be paid to the named beneficiaries unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to

INTRODUCTORY SECTION

SUMMARY OF PLAN PROVISIONS

(Continued)

the member's spouse for life. At retirement, the member may choose to have his spouse receive 50%, 66 $\frac{2}{3}$ %, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age between the member and his or her spouse. If the spouse pre-deceases the member, the annuity is restored to what it would have been if this option had not been elected.

Service-Connected Death Benefit — A \$10,000 lump-sum payment is made to the beneficiary if the member's death is due to a job-related illness or injury.

Normal Retirement Benefit: (Plan A or Plan B) 1.8% of average final compensation (highest consecutive three years) up to the Social Security Breakpoint times creditable service plus 2% of average final compensation which exceeds the Social Security Breakpoint times creditable service. The benefit is then increased by 3%. The Social Security Breakpoint is an average of Social Security wage bases for the last 35 years before a member reaches age 65.

In addition, a supplemental benefit is payable up to age 62 (and in some cases longer). The basic amount of the supplemental benefit is based on the primary Social Security benefit the member would have been entitled to if the member were 65 on the date of retirement. For members hired on or after July 1, 1976, this basic amount is equal to a percentage of the Social Security benefit. That percentage is determined by dividing the member's creditable service by 25. The exact amount of this benefit also depends on the member's age and Plan (see below). The benefit is then increased by 3%.

For Plan C and Plan D members normal retirement benefits are calculated at 2.3% of average final compensation (highest consecutive three years). The benefit is then increased by 3%. No supplemental benefits are payable.

Plan A

Contribution Rate: 4% of base salary up to the maximum Social Security wage base plus 5.75% of base salary over the wage base.

Supplemental Benefit: If the member is less than age 55, no supplemental benefit is payable. From age 55 to 62, the full basic amount of the supplement is payable. After age 62, the benefit payable is any excess of the full basic amount which exceeds the member's actual earliest Social Security benefit payable.

Plan B

Contribution Rate: 7.08% of base salary up to the maximum Social Security wage base plus 8.83% of base salary over the wage base.

INTRODUCTORY SECTION

SUMMARY OF PLAN PROVISIONS

(Continued)

Supplemental Benefit: If the member is less than age 55, $\frac{1}{2}$ of the basic amount of the supplemental benefit is payable. From age 55 to 62, the full basic amount of the supplement is payable. After age 62, the benefit payable is any excess of the full basic amount which exceeds the member's actual earliest Social Security benefit payable.

Plan C

Contribution Rate: 4% of creditable compensation.

Plan D

Contribution Rate: 7.08% of creditable compensation.

KPMG Peat Marwick LLP

2001 M Street, N.W.
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
Fairfax County Uniformed Retirement System:

We have audited the financial statements of the Fairfax County Uniformed Retirement System (System), a pension trust fund of the County of Fairfax, Virginia, as of and for the year ended June 30, 1998, as listed in the accompanying table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in notes to the financial statements, the financial statements present only the net assets and changes in net assets of the System and are not intended to present fairly the financial position and results of operations of the County in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 1998, and its changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 21 through 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information on pages 21 and 22 is required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

October 5, 1998

[Signature]

Member Firm of KPMG International

FINANCIAL SECTION

STATEMENT OF PLAN NET ASSETS

as of June 30, 1998

Assets

Equity in County's pooled cash and temporary investments	\$2,038,768
Accrued interest and dividends receivable	2,904,362
Investments, at fair value	
U.S. Government obligations	25,416,704
Asset-backed securities	82,280,116
Municipal bonds	5,294,822
Corporate bonds	117,945,274
Common and preferred stock	232,239,860
Mutual funds	81,775,678
Short-term investment fund	9,297,626
Cash collateral received under securities lending agreements	<u>45,088,182</u>
Total investments	<u>599,338,262</u>
Total assets	604,281,392

Liabilities

Payable for collateral received under securities lending agreements	45,088,182
Accounts payable and accrued expenses	<u>607,358</u>
Total liabilities	<u>45,695,540</u>

Net assets held in trust for pension benefits \$558,585,852
(A schedule of funding progress is presented on page 21.)

See accompanying notes to financial statements.

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STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Year Ended June 30, 1998

Additions

Contributions	
Employer	\$16,565,155
Plan members	<u>5,118,104</u>
Total contributions	21,683,259
Investment income	
Net appreciation in fair value of investments	60,599,206
Interest	13,577,377
Dividends	4,925,016
Securities lending	3,071,675
Other	<u>3,689</u>
Total investment income	82,176,963
Less investment expense	
Securities lending	2,906,732
Investment fees and other	<u>2,075,971</u>
Total investment expense	<u>4,982,703</u>
Net investment income	<u>77,194,260</u>
Total additions	98,877,519

Deductions

Annuity benefits	7,555,702
Disability benefits	4,629,223
Survivor benefits	242,843
Refunds	622,530
Administrative expense	<u>154,379</u>
Total deductions	<u>13,204,677</u>

Net increase 85,672,842

Net assets held in trust for pension benefits

July 1, 1997	<u>472,913,010</u>
June 30, 1998	<u><u>\$558,585,852</u></u>

See accompanying notes to financial statements.

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

The Fairfax County Uniformed Retirement System ("System" or "plan") is considered part of the County of Fairfax, Virginia's ("County") financial reporting entity and is included in the County's general purpose financial statements as a pension trust fund. The accompanying financial statements present only the operations of the System in conformity with generally accepted accounting principles. They are not intended to present fairly the financial position and results of operations of the entire County.

A. Summary of Significant Accounting Policies

Basis of Accounting. The System's financial statements have been prepared under the accrual basis of accounting. Member and employer contributions to the plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the plan. The cost of administering the plan is paid by the System.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The System records investment purchases and sales as of trade date. These transactions are not finalized until settlement date, which occurs approximately three business days after the trade date. The amount of trade receivables and payables are not separately disclosed due to immateriality. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's pooled cash and temporary investments. The System maintains its cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the fund based on the fund's average daily balance of equity in pooled cash. As of June 30, 1998, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

B. Plan Description and Contribution Information

Membership. At July 1, 1997, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	467
Terminated plan members entitled to but not yet receiving benefits	15
Active plan members	<u>1,512</u>
Total	<u>1,994</u>

Plan Description. The System is a single-employer defined benefit pension plan of the County. The plan covers uniformed employees including non-clerical employees of the Fire and Rescue Department and Office of Sheriff, Park Police, Helicopter Pilots, Animal Wardens and Game Wardens who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinances. To be eligible for normal retirement an individual must meet the following criteria: (a) attain the age of 55 with six years of service, or (b) complete 25 years of service. The normal retirement benefit is calculated using average final compensation and years (or partial years) of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. To be eligible for early retirement, employees must have 20 years of service. The benefit for early retirement is actuarially reduced and payable at early termination.

Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4 percent or the percentage increase in the Consumer Price Index for the Washington Metropolitan Area.

Contributions. The contribution requirements of System members are established and may be amended by County ordinances. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all new hires were enrolled in Plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward, all new hires are enrolled in Plan D. Plan A requires member contributions of 4 percent of compensation up to the Social Security wage base and 5.75 percent of compensation in excess of the wage base. Plan B requires member contributions of 7.08 percent of compensation up to the Social Security wage base and 8.83 percent of compensation in excess of the wage base. Plan C requires member contributions of 4 percent of compensation. Plan D requires contributions of 7.08 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 1998 was 22.18 percent of annual covered payroll.

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

C. Investments

The authority to establish the System is set forth in Section 51.1-800 *Code of Virginia* (Code). Section 51.1-803 of the Code authorizes the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. Such investments shall be diversified so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.*

As permitted by the Code described above, the System invests in derivative instruments on a limited basis in accordance with Board of Trustees' policy. During the fiscal year, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations (CMOs), forward currency contracts, and floating rate securities. Investment managers are specifically prohibited from purchasing securities on margin or leverage.

The System entered into these investments either to increase earnings or to hedge against potential losses. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments results from the creditworthiness of the counterparties to the contracts. An additional credit risk related to the asset-backed securities and CMOs results from the creditworthiness of the related consumers or mortgagees. In addition, the System has indirect exposure to market and credit risk through its ownership interests in mutual funds which hold derivative financial instruments.

At June 30, 1998, investments in derivatives, including related mutual funds, represented 14.3 percent of the total fair value of the System's portfolio. Throughout the fiscal year, investments in derivatives ranged from 7.6 percent to 17.8 percent of the portfolio's fair value.

The System does not have investments (other than U.S. government and U.S. government guaranteed obligations) in any one organization that represent 5 percent or more of net assets available for benefits. All investments, except for the mutual funds, short-term investment fund, and short-term collateral investment pool, are held by an unaffiliated custodian in the name of the System. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board.

Board of Trustees policies permit the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the plan's domestic securities for collateral of 102 percent and international securities for collateral of 105 percent. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool, which at year end has a weighted average maturity of 64 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine.

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The System did not impose any restrictions during the period on the amounts of loans the lending agent made on its behalf, and the agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

Securities lent for securities, or irrevocable letters of credit collateral are classified in the following schedule of investments according to the category of the collateral received. Securities lent at year-end for cash collateral are unclassified as the cash collateral is invested in a collective collateral investment pool. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

As of June 30, 1998 the market value of securities on loan is \$54,564,373. Cash received as collateral and the related liability of \$45,088,182 as of June 30, 1998 are shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default.

The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty or its trust department or agent, but not in the System's name. All of the Systems's investments meet the criteria of Category 1, except investments in mutual funds, a short-term investment fund, a short-term collateral investment pool and those securities on loan for which the cash collateral is invested in the collateral investment pool. These investments by their nature are not required to be categorized.

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

A schedule of investments as of June 30, 1998 follows:

Categorized investments

U.S. Government obligations	
Not on securities loan	\$4,309,096
On securities loan for line of credit collateral	9,970,430
Asset-backed securities	82,280,116
Municipal bonds	5,294,822
Corporate bonds	107,524,775
Common and preferred stock	
Not on securities loan	209,203,594
On securities loan for letter of credit collateral	<u>1,028,736</u>
Total categorized investments	419,611,569

Uncategorized investments

Mutual funds	81,775,678
Short-term investment fund	9,297,626
Securities lending short-term investment pool	45,088,182
Investments held by broker dealers under securities loans with cash collateral:	
U.S. Government obligations	11,137,178
Corporate bonds	10,420,499
Common and preferred stock	<u>22,007,530</u>
Total uncategorized investments	179,726,693

Total investments	<u>\$599,338,262</u>
--------------------------	-----------------------------

D. Income Taxes

The Internal Revenue Service issued a determination letter on February 23, 1995, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

Six-year historical trend information about the System is presented herewith as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/92	\$215,848,806	\$246,273,638	\$30,424,832	87.65%	\$ 57,507,209	52.91%
7/1/93	247,176,859	269,093,293	21,916,434	91.86%	56,460,788	38.82%
7/1/94	272,433,306	295,478,343	23,045,037	92.20%	59,224,826	38.91%
7/1/95	307,481,896	335,741,130	28,259,234	91.58%	64,457,370	43.84%
7/1/96	374,013,792	396,666,197	22,652,405	94.30%	69,133,414	32.77%
7/1/97	432,367,343	446,505,759	14,138,416	96.83%	71,957,919	19.65%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1993	\$12,099,547	100%
1994	12,810,330	100%
1995	13,381,350	100%
1996	14,580,237	100%
1997	16,111,378	100%
1998	16,565,155	100%

FINANCIAL SECTION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	July 1, 1997
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of 7.0 years
Asset valuation method	3-Year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.1%-6.1%
*Includes inflation at	4.0%
Cost-of-living adjustments	3.0%

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience, completed in 1996.

The rate of employer contributions to the plan is composed of the normal cost, amortization of the unfunded actuarial liability and an allowance for administrative expenses. The normal cost is a level percent of pay cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability. The allowance for administrative expenses is based upon the plan's actual administrative expenses.

Investment gains have resulted in a decrease in the unfunded actuarial liability as of valuation date. The result is an employer contribution rate of 19.90 percent for the fiscal year ending June 30, 1999, a decrease of 2.28 percent from the fiscal year 1998 rate of 22.18 percent.

FINANCIAL SECTION

SUPPORTING SCHEDULE

SCHEDULE OF INVESTMENT EXPENSE

For the year ended June 30, 1998

Securities lending expense	
Rebates paid to borrowers under securities lending agreements	\$2,809,847
Fees paid to securities lending agent	<u>96,885</u>
Total securities lending expense	2,906,732
Investment manager fees	
Equity managers	1,229,130
BEA Associates	
Cowen Asset Management	
Lazard Asset Management	
Marathon Asset Management	
Fixed income managers	<u>534,948</u>
BEA Associates	
Payden & Rygel Investment Counsel	
Total investment management fees	1,764,078
Custody fees	132,704
Consultant fees	102,000
Allocated administrative expense	<u>77,189</u>
Total investment expense	<u>\$4,982,703</u>

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INVESTMENT SECTION

ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

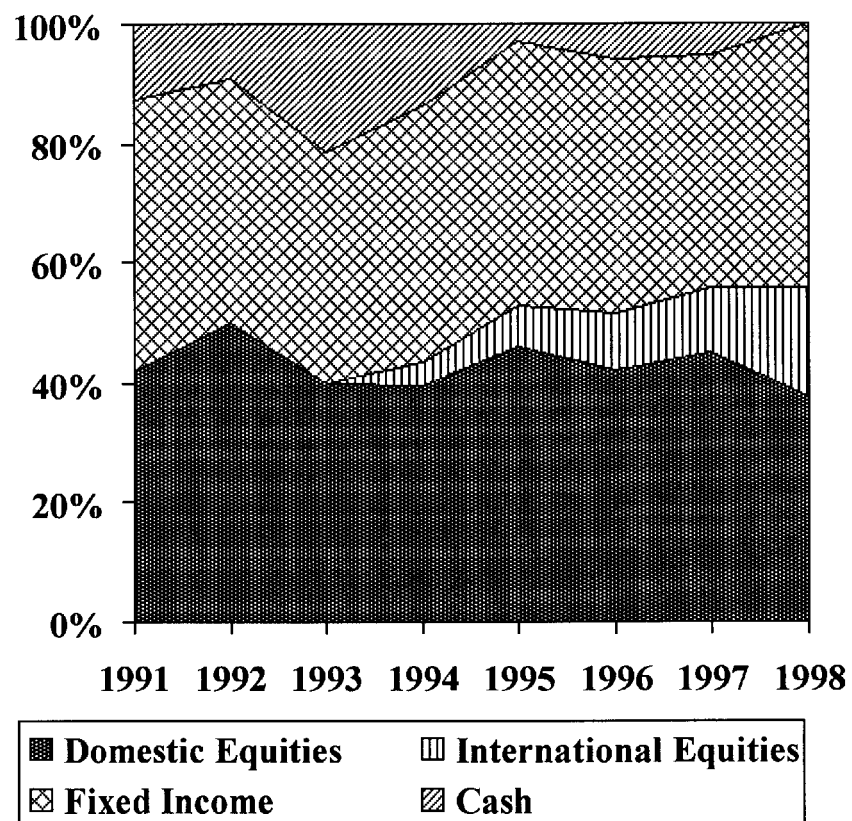
Asset Class Manager	Investment Style	Total Assets	% of Total Assets
<i>Domestic Equities</i>			
BEA Associates	Active Large Cap Core	\$ 33,900,849	6.1%
Lazard Asset Mgt.	Active Large Cap Value	81,909,881	14.6%
Barclays Global*	Active Enhanced S&P Index	74,363,447	13.3%
SG Cowen	Active Small Cap Value	27,430,891	4.9%
<i>International Equities</i>			
Marathon London	Active EAFE	63,982,694	11.4%
Lazard Asset Mgt.	Active EAFE/EMF	38,641,754	6.9%
<i>Global Fixed Income</i>			
BEA Associates	Active Core	100,572,225	18.0%
Payden & Rygel	Active Core	110,433,525	19.8%
<i>Domestic Fixed Income</i>			
BEA Associates	Active Convertibles	25,915,403	4.6%
<i>Cash Held At Treasurer</i>	Active Short Term	2,042,541	0.4%
Total Investments**		\$ 559,193,210	100.0%

* Pooled Fund

** Without Cash Collateral

INVESTMENT SECTION

Asset Allocation 1991 - 1998



INVESTMENT SECTION

LIST OF LARGEST ASSETS HELD (June 30, 1998)

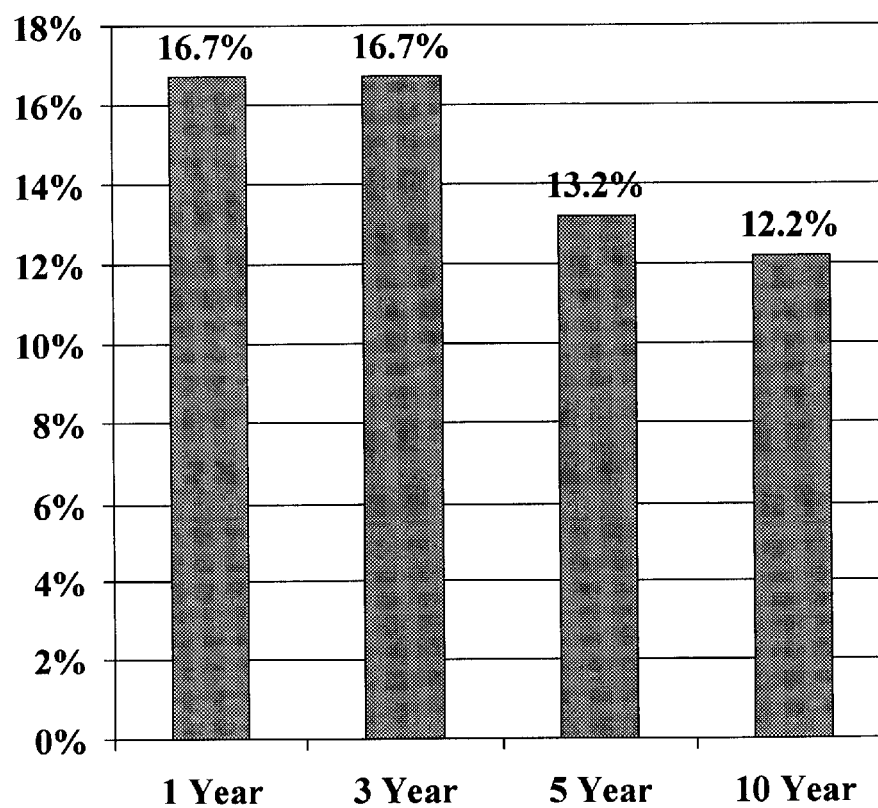
Fifteen Largest Equity Holdings	Shares	Market Value
AT&T Corporation	46,900	\$2,679,163
BankAmerica Corporation	28,900	2,499,850
Philip Morris Companies, Inc.	61,500	2,421,563
Edison International	75,600	2,234,925
Gannett Incorporated	31,200	2,217,150
Bell Atlantic Corporation	47,600	2,171,750
Mobil Corporation	27,300	2,091,863
Travelers Group Inc.	33,950	2,058,219
American Home Products Corporation	38,800	2,007,900
United Technologies Corporation	21,200	1,961,000
Wal Mart Stores Inc.	31,200	1,895,400
Heineken NV*	47,500	1,864,672
Microsoft Corporation	16,600	1,799,025
Diageo PLC*	85,258	1,785,238
ENI SpA	264,900	1,736,145

* Totals include local shares and American Depository Receipts (ADRs)

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Par Value	Market Value
Federal National Mortgage Association 30-Year July TBA	6.500%	Jul. 2028	\$7,480,000	\$7,449,556
United States Treasury Security Strips	0.000%	Aug. 2006	11,000,000	7,025,700
United States Treasury Notes	7.750%	Nov. 1999	5,800,000	5,973,072
Time Warner Entertainment Co. LP	8.375%	Mar. 2023	5,000,000	5,856,550
AMR Corporation, Delaware	9.000%	Aug. 2012	4,846,000	5,717,311
News America Holdings Inc.	8.000%	Oct. 2016	5,090,000	5,608,009
United States Treasury Bonds	6.125%	Nov. 2027	5,000,000	5,357,800
Apache Corporation Note	6.500%	Dec. 2007	5,000,000	5,001,050
Chase Manhattan Auto Owner Government National Mortgage Association Pool 442138	6.400%	Jul. 2001	4,700,000	4,749,938
First USA Credit Card Master Trust	8.000%	Nov. 2028	4,510,560	4,674,068
Federal Home Loan Mortgage Corporation Gold TBA July 15	5.995%	Apr. 2003	4,500,000	4,509,810
United States Treasury Notes	6.500%	Jul. 2028	4,455,000	4,485,606
Government National Mortgage Association TBA August 30	6.625%	Apr. 2002	4,000,000	4,146,880
Health & Retirement Properties Trust	7.500%	Aug. 2028	4,000,000	4,111,240
	6.750%	Dec. 2002	4,000,000	4,050,160

INVESTMENT SECTION

TOTAL FUND AVERAGE RETURN ON INVESTMENTS





MILLIMAN & ROBERTSON, INC.

Actuaries & Consultants

Internationally WOODROW MILLIMAN

Suite 1000, 8000 Towers Crescent Drive, Vienna, VA 22182-2700
Telephone: 703/917-0143
Fax: 703/827-9266

October 2, 1998

Board of Trustees
Fairfax County Uniformed
Retirement System
10680 Main Street - Suite 280
Fairfax, VA 22030-3805

Dear Members of the Board:

At your request, we have performed our annual actuarial valuation of the Fairfax County Uniformed Retirement System as of July 1, 1997. The results of the valuation are contained in this report.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve this, a contribution rate has been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a 15 year period. This funding objective is currently being realized.

Assumptions

The actuarial assumptions used in this valuation have been recommended by the actuary and adopted by the Board of Trustees based upon the most recent review of the System's experience completed in 1996. We believe the assumptions used, in the aggregate, represent our best estimate of future experience of the plan.

Due to large investment gains in recent years, the plan's funding had reached the point where a large amortization payment was due to be paid on a rather small unfunded liability. In order to prevent overpayment we recommended that the Board roll-up the remaining 15 year basis which were being amortized over periods ranging from 6 to 15 years and re-establish the July 1, 1997 unfunded liability over a new 7 year period. This resulted in a reduction in the contribution rate otherwise payable of 1.54% of payroll.

The assumptions and methods used in performing this valuation meet the parameters set for disclosure presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Plan Changes

Effective with the 1997 valuation we recognized the addition of two new plans with a flat 2.3% benefit and no pre-age-62 supplements. In addition to these new benefit structures, all four plans also reduced the service connected disability benefit from 66-2/3% to 40% with the addition of a 90% benefit in cases of severe disability. The voluntary movement of members into the two new plans resulted in an increase in the County contribution rate of 1.67% of payroll.

Albany, Atlanta, Boston, Chicago, Dallas, Denver, Hartford, Houston, Indianapolis, Irvine, Los Angeles, Milwaukee, Minneapolis, New York, Omaha, Philadelphia, Phoenix, Portland, ME, Portland, OR, St. Louis, Salt Lake City, San Diego, San Francisco, Seattle, Tampa, Washington, D.C., Bermuda, Tokyo
WOODROW MILLIMAN Member Firms in Principal Cities Worldwide

ACTUARIAL SECTION

Board of Trustees Fairfax County
Uniformed Retirement System
October 2, 1998
Page 2

Reliance on Others

In preparing our report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found the data to be reasonably consistent and comparable with data used in the prior valuation.

Supporting Schedules

We were responsible for all supporting schedules to be found in the Actuarial Section.

We were responsible for all years of the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

Compliance with Code of Virginia §51.1-800

Code of Virginia §51.1-800 requires that the benefits provided a retiree at age 65 from a local retirement system equal or exceed two-thirds of the allowance to which the employee would be entitled under the provisions of the Virginia Retirement System (VRS). The Board of Trustees of the VRS is to determine whether a local system satisfies this condition, taking into account differences in member contributions between the local system and the VRS.

Although there is no formal procedure for making this comparison, we have compared the least valuable accrual rate under the Uniformed Plan to the most valuable accrual rate under the VRS, making adjustments for the fact that employee contributions are required in excess of the VRS 5% rate. The employer provided accrual rates do exceed 2/3 of the employer provided accrual rates under the VRS plan.

I certify that, to the best of my knowledge and understanding, the Fairfax County Uniformed Retirement System satisfies the requirements of the Code of Virginia §51.1-800.

Certification

On the basis of the foregoing, we certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and supporting Recommendations and Interpretations of the American Academy of Actuaries.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.



Fiona E. Liston, F.S.A.
Consulting Actuary

MILLIMAN & ROBERTSON, INC.

ACTUARIAL SECTION

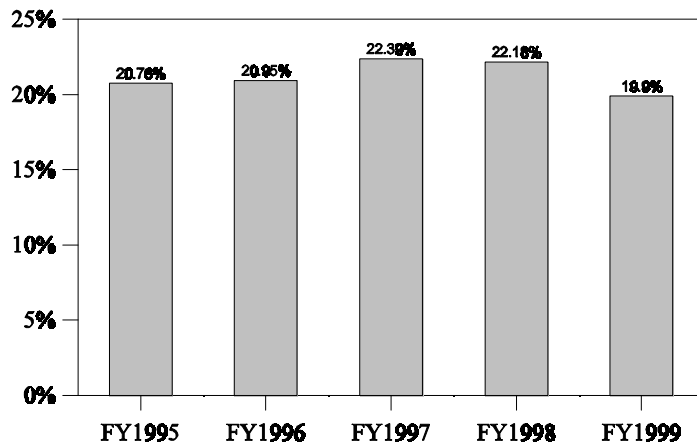
SUMMARY OF VALUATION RESULTS

(1) Overview

This report presents the results of our July 1, 1997 actuarial valuation of the Fairfax County Uniformed Retirement System.

The major findings of the valuation are summarized in the following charts.

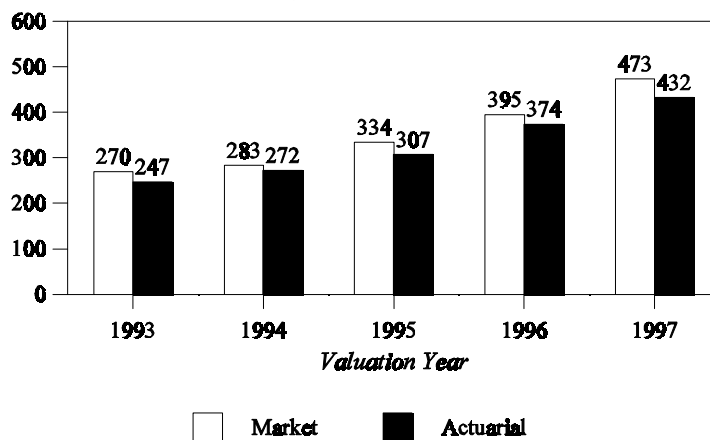
Employer Contribution Rates
(as a % of Payroll)



There was a slight decrease in the employer contribution rate over the past year, primarily due to investment gains. This year's rate reflects the creation of Plans C and D along with a fresh amortization of the existing unfunded actuarial liability.

System Assets
(In Millions)

The System's assets have grown considerably in the recent past. The increase in the actuarial value was 16% over the past year and 75% since 1993.



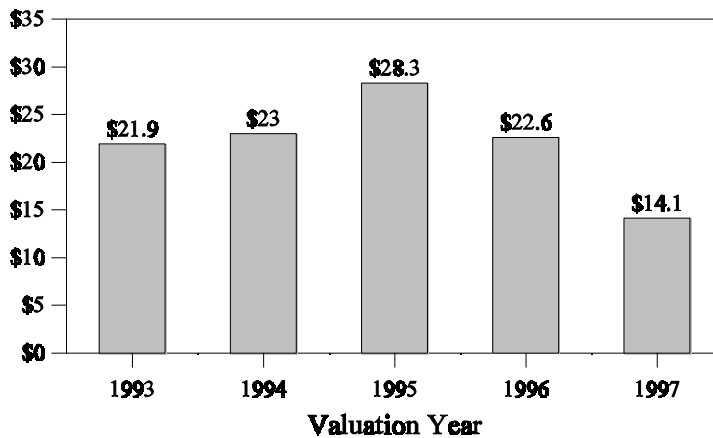
SUMMARY OF VALUATION

ACTUARIAL SECTION

RESULTS

(Continued)

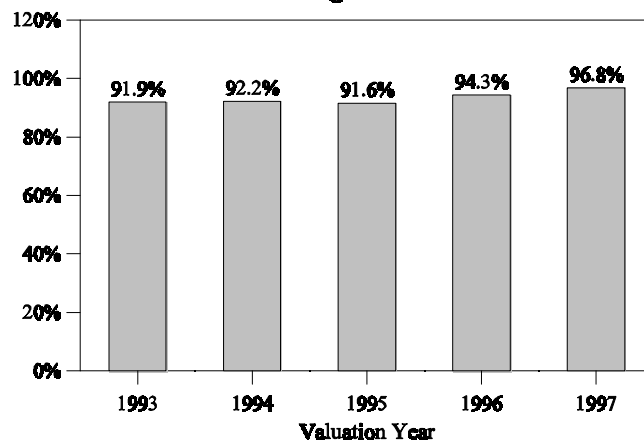
Unfunded Actuarial Liability
(In Millions)



The unfunded actuarial liability decreased over the past year. This was due to asset gains that were greater than the increased UAL due to plan improvements.

The ratio of actuarial assets to the actuarial accrued liability increased over the past year. This is the GASB #25 measure of funding progress which replaces the PBO formerly reported.

Funding Ratio



(2) Summary of Results

The table on the next page compares the principal results from the 1996 and 1997 valuations.

ACTUARIAL SECTION

SUMMARY OF VALUATION RESULTS (Continued)

1. <u>Participant Data</u>	<u>July 1, 1996</u>	<u>July 1, 1997</u>	<u>Percent Change</u>
Number of:			
Active Members	1,515	1,512	- 0.2%
Retired Members and Beneficiaries	234	269	+ 15.0%
Disabled Members	191	198	+ 3.7%
Vested Former Members	11	15	+36.4%
Annual Salaries of Active Members	\$ 66,798,262	\$ 68,658,700	+ 2.8%
Annual Benefits for Retired and Disabled Members, and Beneficiaries (excluding Supplements)	\$ 8,699,347	\$ 10,339,204	+18.9%
2. <u>Assets and Liabilities</u>			
Total Actuarial Liability	\$ 396,666,197	\$ 446,505,759	+12.6%
Assets for Cost Purposes	\$ 374,013,792	\$ 432,367,343	+15.6%
Unfunded Actuarial Liability	\$ 22,652,405	\$ 14,138,416	-37.6%
3. <u>Contribution Results (as a percent of payroll)</u>			
Employer Normal Cost Contribution	16.31%	16.31%	
Unfunded Actuarial Liability Contribution	5.57%	3.29%	
Administrative Expenses	<u>0.30%</u>	<u>0.30%</u>	
Total Contribution	22.18%	19.90%	

ACTUARIAL SECTION

SUMMARY OF VALUATION RESULTS (Continued)

(3) Valuation Highlights

1. System Assets

As of July 1, 1997, the System had assets at fair value of \$472.9 million, as compared to \$394.7 million as of July 1, 1996. The increase of \$78.2 million was attributable to the following:

- an increase of \$21.1 million due to employer and member contributions;
- a decrease of \$11.4 million due to payment of System benefits and expenses;
- an increase of \$68.5 million due to System investment experience (realized and unrealized).

When measured on an actuarial basis for contribution purposes (in order to dampen market fluctuations), System assets were \$432.4 million as of July 1, 1997, up from \$374.0 million as of July 1, 1996. Of the total \$58.4 million increase, \$38.0 million was expected based on our assumption that the System assets would earn 7.50% per year. System assets increased an additional \$20.4 million, representing a recognized actuarial gain.

Overall, the rate of return on System assets during the year was 17.2% on a fair value basis, and 12.9% on an actuarial value basis.

2. System Liabilities

Two types of liabilities are presented in this report; actuarial liabilities and the liability for benefits accrued to date. Actuarial liabilities are developed and used for ongoing funding purposes and include a portion of future anticipated pay increases and service credit. This is also used as the measurement of actuarial accrued liability required to be disclosed under Governmental Accounting Standards Board Statement No. 25.

The liability for benefits accrued to date measures the present value of all future System benefits based on service to date. In this report, we present a measure of the liability for benefits accrued which conforms with Statement No. 35 of the Financial Accounting Standards Board.

As of July 1, 1997, the System actuarial liabilities were \$446.5 million, as compared to \$396.7 million as of July 1, 1996. Measured against System assets (actuarial value) of \$432.4 million

SUMMARY OF VALUATION RESULTS (Continued)

there are System unfunded actuarial liabilities of \$14.1 million. This compares to \$22.7 million of unfunded actuarial liabilities as of July 1, 1996.

ACTUARIAL SECTION

Viewed another way, the ratio of assets to actuarial liabilities increased from 94.3% (July 1, 1996) to 96.8% (July 1, 1997).

With respect to the liabilities for benefits accrued as of the valuation date, this valuation shows a liability of \$372.6 million as compared to \$328.5 million as of July 1, 1996. The increase in liability is largely due to the creation of Plans C and D which provide improved benefits to those members who elected to change plans.

Since these liabilities are based upon a current "snapshot" of members' pay and service, the common approach is to compare this liability with the fair (i.e. current) value of System assets. This comparison as of July 1, 1997 shows that the ratio of System assets to liabilities accrued to date has increased from 120.1% (July 1, 1996) to 126.9% (July 1, 1997).

3. System Contributions

Contributions to the System include a "normal cost rate" which, along with member contributions, covers the portion of projected liabilities on account of service of members during the year following the valuation date.

In addition, an unfunded actuarial liability contribution is made which, together with assets on hand, will fund the portion of projected liabilities on account of service rendered prior to the valuation date. Finally, a provision for System administrative expenses is made by adding 0.30% of member payroll to the total contribution.

The employer normal contribution is 16.31% of member payroll, and the unfunded actuarial liability rate is 3.29% of payroll. Together with the administrative expense rate, this results in a total employer contribution rate from the July 1, 1997 valuation, of 19.90% of payroll compared with a July 1, 1996 valuation rate of 22.18% of payroll.

The decrease in the employer contribution rate of 2.28% of payroll is attributable to the following:

ACTUARIAL SECTION

SUMMARY OF VALUATION RESULTS

(Continued)

Employer Contribution Rate July 1, 1996 Valuation; fiscal year 1998	22.18%
Decrease due to investment gains	(2.49)
Increase due to actuarial experience	0.08
Decrease due to change in amortization period	(1.54)
Increase due to change in plan provisions	<u>1.67</u>
Employer Contribution Rate July 1, 1997 Valuation; fiscal year 1999	19.90%

4. Membership

The total active membership of the Uniformed Retirement System has decreased from 1,515 as of July 1, 1996 to 1,512 as of July 1, 1997. The number of retired members and their beneficiaries has increased from 234 as of July 1, 1996 to 269 on July 1, 1997. The number of disabled members receiving benefits has increased from 191 to 198, and the number of former members with vested rights increased from 11 to 15.

In total, the membership of the System, both active and inactive, has increased 2.2% from 1,951 members as of July 1, 1996, to 1,994 members as of July 1, 1997.

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

(A) *Funding Method*

The System uses the aggregate accrual modification of the entry age normal method with projection to determine costs. Under this funding method, a total contribution rate is determined which consists of three elements, the normal cost rate, the unfunded actuarial liability rate and the administrative expense rate.

The normal cost rate is a level percent of pay cost which, along with the member contributions, will pay for each member's projected benefits at retirement. This level percent is calculated at entry age for each individual and a weighted average is used for the group. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost. Effective with the 1995 valuation, the normal cost rate was frozen until there is another major plan amendment or a significant change in actuarial assumptions.

In addition to contributions required to meet the System's normal cost, contributions will be required to fund the System's unfunded actuarial liability. Actuarial liability is defined as the present value of future benefits less the present value of future normal costs. The unfunded actuarial liability is the total of the actuarial liability for all members less the actuarial value of the System's assets.

The unfunded actuarial liability rate is the level percent of member payroll which, when applied to each year's payroll is sufficient to amortize the July 1, 1997 unfunded actuarial liability in 7 years, and each subsequent year's gains, losses or plan amendments over 15 years.

An assumed expense rate of 0.30% of payroll is added to cover the System's administrative expenses.

(B) *Actuarial Value of Assets*

The fair value representing the value for which assets could be sold on a particular day, is not necessarily an appropriate value for the purpose of setting the contribution rates for the System. This is because funding will take place over a long period into the future during which time fair values can be expected to fluctuate widely. If fair values were used to develop contribution rates, the resulting contributions would also vary widely.

In order to produce a stable pattern of contribution rates, fair values are adjusted so that

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

ACTUARIAL SECTION

some of the volatility is removed. This adjusted value is determined by using a three-year moving average. Under this method, the actuarial value of the assets is a weighted average between the expected value, assuming the actuarially assumed investment return (8½% through 7/1/96 and 7½% thereafter) was achieved, and the actual fair value. The calculation is weighted **a** to the actual fair value and **b** to the expected value. This is mathematically equivalent to recognizing 100% of the actuarial assumed investment return, of contributions and payments each year and **a** of the difference between that expected value and the fair value.

(C) Actuarial Assumptions

The assumptions used for the actuarial valuation were recommended by the actuary and adopted by the Board of Trustees based on periodic analysis of the System's experience. Differences between assumed and actual experience (actuarial gains and losses) are part of the unfunded actuarial liabilities. The following significant assumptions were used in the actuarial valuation as of June 30, 1997:

- a. a rate of return on investments of 7½% compounded annually (adopted July 1, 1996, the prior rate was 8½%);
- b. projected salary increases of 4% compounded annually, attributable to inflation (adopted July 1, 1996, the prior rate was 5%);
- c. additional projected salary increases ranging from 0.09% to 2.13% per year, attributable to merit and seniority (adopted July 1, 1996, the prior range was from 0.96% to 4.34% per year);
- d. post retirement benefit increases of 3% compounded annually (adopted July 1, 1996, the prior rate was 4%);
- e. rates of mortality, termination of service, disablement, and retirement are based on actual experience;
- f. aggregate active member payroll is assumed to increase by 4% annually (adopted July 1, 1996, the prior rate was 6%).

A detailed listing of all actuarial assumptions follows:

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

A. Long Term Assumptions Used to Determine System Costs and Liabilities

1. DEMOGRAPHIC ASSUMPTIONS

a. Mortality: 1994 Uninsured Pensioners Mortality Table

*Annual Deaths Per 1000 Members**

<u>Age</u>	<u>Male Deaths</u>	<u>Female Deaths</u>	<u>Age</u>	<u>Male Deaths</u>	<u>Female Deaths</u>
20	1	0	65	16	9
25	1	0	70	26	15
30	1	0	75	40	24
35	1	1	80	67	42
40	1	1	85	105	73
45	2	1	90	164	125
50	3	2	95	251	200
55	5	2	100	341	297
60	9	5	105	441	415

* 5% of deaths are assumed to be service-connected.

b. Termination of Employment (Prior to Normal Retirement Eligibility)

Annual Terminations per 1000 Members

<u>Age</u>	<u>Terminations</u>
20	60
25	50
30	30
35	15
40	13
45	10
50	8

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

ACTUARIAL SECTION

It is assumed that members who terminate before normal or early retirement age elect to receive a refund of contributions instead of vested benefits.

c. Disability

<i>Annual Disabilities per 1,000 Members*</i>		<i>Annual Deaths Per 1000 Disabled Members</i>		
<u>Age</u>	<u>Male & Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
20	2	40	14	9
25	3	45	14	10
30	4	50	15	11
35	5	55	17	13
40	8	60	20	15
45	13	65	26	18
50	21	70	37	23
55	30	75	55	35
60	30	80	82	55

* Disabilities are assumed to be all service-connected. Of these, 30% are assumed to receive Social Security benefits and 38% are assumed to receive Workers' Compensation benefits.

d. Retirement:

It is assumed that members all retire when they are first eligible for unreduced benefits (age 55 with 6 years of service, or completion of 25 years of service).

In addition, if members are not eligible for unreduced benefits, but are eligible for early retirement (20 years of service), it is assumed that they will retire at the following rates:

<u>Age</u>	<u>Annual Early Retirement Per 1000 Eligible</u>
40	60
45	50
50	40

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

- e. Merit/Seniority Salary Increase (in addition to across-the-board increase):

<u>Age</u>	<u>Merit/Seniority Increase</u>
	2.13%
20	1.84%
25	1.55%
30	1.26%
35	0.97%
40	0.67%
45	0.38%
50	0.09%
55	

- f. Family Composition

For purposes of valuing the pre-retirement death benefit, an assumption concerning how many employees are married is needed. The assumption used in this valuation is that 80% of employees are married at death while active and that the female spouse is 3 years younger than the male spouse.

- g. Sick Leave Credit

Retirees, deferred vested terminations, and deceased members are assumed to receive an additional 3.0% of service credit due to sick leave.

2. ECONOMIC ASSUMPTIONS

- a. Investment Return: 7.50% compound per annum
- b. Cost-of-Living Benefit Increase: 3.00% compound per annum (based on a CPI increase of 4%).
- c. Increase in the Social Security Wage Base: 4.00% compound per annum.
- d. Across-the-Board Increase in County Salaries: 4.00% compound per annum.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

ACTUARIAL SECTION

- e. Total Payroll Increase (for amortization): 4.00% compound per annum.
- f. Administrative Expenses: 0.30% of payroll.

3. *CHANGES SINCE LAST VALUATION*

None.

ACTUARIAL SECTION

ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Losses in Accrued Liability During Years Ended June 30 Resulting from Differences Between Assumed Experience and Actual Experience

<i>Type of Activity</i>	<i>Gain (or Loss) for Year ending June 30,</i>			
	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
Investment Income	(\$5,512,847)	\$2,333,360	\$9,650,431	\$20,272,834
Combined liability Experience	<u>4,533,086</u>	<u>(538,411)</u>	<u>1,661,539</u>	<u>(690,075)</u>
Gain (or Loss) During Year from Financial Experience	(\$979,761)	\$1,794,949	\$11,311,970	\$19,582,759
Non-Recurring Items	<u>(1,506,767)</u>	<u>(6,706,450)</u>	<u>(7,236,152)</u>	<u>(13,547,224)</u>
Composite Gain (or Loss) During Year	(\$2,486,528)	(\$4,911,501)	\$4,075,818	\$6,035,535

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

<i>Year Ended June 30,</i>	<i>Added to Rolls</i>		<i>Removed From Roll</i>		<i>On Rolls @ Yr. End</i>		<i>% Increase Allowance</i>	<i>Average Allowance</i>
	<i>No.</i>	<i>Annual Allowance</i>	<i>No.</i>	<i>Annual Allowance</i>	<i>No.</i>	<i>Annual Allowance</i>		
1994					377	7,494,079		19,878
1995	32	1,389,319	16	248,354	393	8,635,044	15.22%	21,972
1996	38	1,208,415	6	49,718	425	9,793,741	13.42%	23,044
1997	47	1,854,347	5	77,022	467	11,571,066	18.15%	24,777

ACTUARIAL SECTION

SOLVENCY TEST

Valuation Date	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)	Reported Assets	(1)	(2)	(3)
	Active Member Contributions	Retirees, Vested Terms, Beneficiaries	Active Members, (Employer Financial Portion)				
7/1/92	30,344,769	84,140,888	131,787,981	215,848,806	100%	100%	77%
7/1/93	34,290,116	91,928,370	142,874,807	247,176,859	100%	100%	85%
7/1/94	41,540,093	105,398,821	148,539,429	272,433,306	100%	100%	84%
7/1/95	42,566,327	116,855,930	176,318,873	307,481,896	100%	100%	84%
7/1/96	46,621,095	137,359,734	212,685,368	374,013,792	100%	100%	89%
7/1/97	50,230,152	161,103,135	235,172,472	432,367,343	100%	100%	94%

STATISTICAL SECTION

SCHEDULE OF ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

ADDITIONS

<u>Fiscal Year</u>	<u>Plan Member Contributions</u>	<u>Employer Contributions</u>	<u>Employer Contributions % of Covered Payroll</u>	<u>Net Investment Income</u>	<u>Total Revenues</u>
1993	\$3,857,977	\$12,099,547	21.43%	\$28,478,646 ¹	\$44,436,170
1994	4,121,494	12,810,330	21.63%	3,804,223 ¹	20,736,047
1995	4,383,919	13,381,350	20.76%	42,743,085 ¹	60,508,354
1996	4,810,588	14,580,237	21.09%	50,767,472	70,158,297
1997	4,966,687	16,111,378	22.39%	68,557,537	89,635,602
1998	5,118,104	16,565,155	22.18%	77,194,260	98,877,519

DEDUCTIONS

<u>Fiscal Year</u>	<u>Benefit Payments</u>	<u>Refunds of Contributions</u>	<u>Administrative Expenses</u>	<u>Total Expenses</u>
1993	\$ 6,024,012	\$338,460	\$169,784 ²	\$ 6,532,256
1994	6,984,416	245,601	244,141 ²	7,474,158
1995	7,877,548	397,549	294,493 ²	8,569,590
1996	9,229,198	294,480	179,403	9,703,081
1997	10,807,664	440,064	163,173	11,410,901
1998	12,427,768	622,530	154,379	13,204,677

¹ The net investment income for 1993-95 has been restated from amounts previously reported to recognize investment expenses and the change in unrealized gain occurring each year.

² Administrative expenses for 1993-95 are net of an expense allocation to investment expense. Investment expense has been deducted in the computation of Net Investment Income.

STATISTICAL SECTION

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

<u>Fiscal Year Ended June 30,</u>	<u>Annuity</u>	<u>Service- Connected Disability</u>	<u>Ordinary Disability</u>	<u>Survivor</u>	<u>Total</u>
1993	\$3,449,125	\$2,372,254	\$ 76,236	\$126,395	\$ 6,024,010
1994	3,874,193	2,821,265	100,115	188,843	6,984,416
1995	4,451,328	3,120,949	96,968	208,303	7,877,548
1996	5,269,967	3,629,357	132,906	196,968	9,229,198
1997	6,262,391	4,206,961	131,564	206,748	10,807,664
1998	7,555,702	4,449,490	179,733	242,843	12,427,768

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

<u>Fiscal Year Ended June 30,</u>	<u>Annuity</u>	<u>Service- Connected Disability</u>	<u>Ordinary Disability</u>	<u>Survivor</u>	<u>Total</u>
1993	168	154	8	13	343
1994	179	162	8	14	363
1995	204	168	8	13	393
1996	220	181	10	14	425
1997	254	187	11	15	467
1998	298	189	14	17	518

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

<u>Fiscal Year Ended June 30,</u>	<u>Annuity</u>	<u>Service- Connected Disability</u>	<u>Ordinary Disability</u>	<u>Survivor</u>	<u>Average</u>
1993	\$1,843	\$1,402	\$ 995	\$ 856	\$1,588
1994	2,038	1,482	983	956	1,663
1995	2,159	1,670	1,091	1,204	1,831
1996	2,242	1,806	1,037	1,192	1,990
1997	2,407	1,952	1,048	1,233	2,155
1998	2,521	2,036	1,194	1,233	2,266